R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

A Two-Part Report: A and B

NO. 38A October 11, 1991

# JAPAN'S DEFENSE PROCUREMENT AND PLANNING COMPLICATED BY GLOBAL CHANGES

Summary

The people who drafted Japan's current five-year defense plan saw changes in the global order occurring as they worked to gain cabinet approval for the program late last year, but they scarcely could have expected the new upheavals in the wake of the August 1991 aborted coup d'etat in the Soviet Union. Neither could they have foreseen the recent, related announcements in Washington and Moscow that they would eliminate most of their tactical nuclear weapons; such a move would further propel the transition to a new world order. While the five-year defense program is not necessarily outdated, planners will be closely following these changes, which appear to affect the decades-long threat posed by Soviet military power in the Far East -- a threat that has shaped Tokyo's security strategy.

In the immediate future defense experts do not anticipate dramatic changes in the FY 1991-FY 1995 defense program. Tokyo continues to be wary that whatever remains of the Soviet Union still may have potential designs in the Asian Pacific because, unlike in the European theater, Moscow has continued qualitative upgrades of its weaponry in this region. There also is concern that the breakdown of the Cold War superpower balance will create the potential for regional instability, particularly in Asia, for which Japan does not want to be ill-prepared. But as East-West tensions continue to ease and Japanese-Soviet relations presumably improve, Japanese defense officials acknowledge that they will face virtually unavoidable domestic pressures to constrain still further the growth in the defense budget.

At the same time Tokyo will be compelled by both internal and external forces to pursue a more engaged foreign policy;

that, in turn, may necessitate reinterpreting its self-defense mission in a more expansive manner. This may culminate in Japan's decision to allow Self-Defense Forces personnel to participate in United Nations-sponsored peacekeeping efforts. Although the U.S.-Japan Mutual Security Treaty will remain a crucial pillar of the bilateral alliance, transpacific frictions will continue over equipment procurement and military technology transfers due to the clash of budgetary constraints in both Tokyo and Washington, the Japanese defense industry's aspirations and U.S. defense manufacturers' efforts to adapt to a shrinking global defense market.

Tokyo Slows Defense Buildup in FY 1991-FY 1995 Plan

By the time Soviet communist hard-liners had attempted and failed to overthrow the government of Mikhail Gorbachev this past August, Tokyo was in the first year of its FY 1991-FY 1995 defense buildup program -- a plan that incorporates some reevaluations of Japan's security requirements in light of post-Cold War changes. Japan's defense buildup program, begun in 1977, has been developed and implemented in accordance with the National Defense Program Outline. This overarching plan, adopted in October 1976 by the cabinet of then Prime Minister Takeo Miki, stipulates the level of defense capabilities that should be maintained by Japan in peacetime and provides guidelines for improvement. Among the emphasized goals are improved and expanded capabilities in air defense, antisubmarine warfare and ground force response to a manned invasion as well as improved command, communications, intelligence and reconnaissance capabilities. By the end of FY 1990 Tokyo had accomplished most of the personnel and equipment procurement objectives contained in the 1976 outline (see JEI Report No. 35A, September 14, 1990).

When Japanese defense planners sat down in the summer of 1989 to begin to pull together proposals for the FY 1991-FY 1995 program, they faced the difficult task of having to develop a new conceptualization of Japan's security needs amid a changing global backdrop. The underlying premises of its self-defense vision had been the need to preserve a military balance between the United States and the Soviet Union and the related desire to prevent a full-scale attack against Japan through adherence to the U.S.-Japan Mutual Security Treaty. But at the end of the 1980s, as the Kremlin's shadow over Eastern Europe rapidly began to fade and as U.S.-Soviet relations entered a more cooperative period, the very context in which Japan's military roles and missions had been determined was in flux.

Washington added to the unsettled feeling in Tokyo when it announced a plan in February 1990 to reduce by one-tenth the American forces stationed in Japan and elsewhere in Asia during the 1990-93 period (see JEI Report No. 9B, March 2, 1990). Although this move was influenced more by budgetary constraints than a reassessment of the Soviet military threat to the Asian Pacific, domestic critics of Japan's defense posture seized on this action as justification

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

to similarly reduce their country's military power. Since the postwar global order was evolving in a new direction, their argument went, the 1976 defense outline and the self-defense goals set forth under this plan no longer were relevant.

The Japan Defense Agency, in concurrence with the Department of Defense, strongly refuted these claims, citing intelligence estimates concerning Soviet military personnel and weaponry stationed in the Far East. The political and economic reforms sweeping through the Soviet bloc at that time did not lessen Moscow's ability to pose a threat to Asian stability, defense officials emphasized. A report issued in July 1990 by Japan's National Security Council, a panel comprised of the prime minister and selected cabinet officials who deliberate on defense-related issues, in fact urged that the upcoming defense plan pick up where the old framework left off in terms of modernizing the Self-Defense Forces and qualitatively improving weapons systems (see JEI Report No. 35A, September 14, 1990). Some Japanese defense officials also pointed out that even with completion of the FY 1986-FY 1990 program and attainment of most of the outline's objectives, Japan's military still would not be able to adequately defend the sea-lanes stretching 1,000 nautical miles east and south of the country. (Former President Reagan and then Prime Minister Zenko Suzuki established this as a self-defense goal for Japan in a 1981 joint communique.)

NSC members therefore recommended the procurement during the FY 1991-FY 1995 period of several advanced systems to further enhance Japan's capabilities in air defense and ground force response plus improvements in command, communications, intelligence and reconnaissance. Some of the hardware specifically mentioned included AWACS (airborne warning and control system) aircraft, the multiple-launch rocket system, tanker-refueling aircraft and Aegis radar-linked fire-control systems. The report also urged that money be appropriated to establish a new headquarters for gathering and analyzing intelligence data. In a continuing effort to attract talented individuals to the military the drafters of the NSC report called for improved living and working conditions for SDF members.

When the Japan Defense Agency subsequently began negotiations with the Ministry of Finance on the budget that would be needed to implement some of the NSC's proposals, MOF -- which has not been known for its largesse in budget talks with any ministry -- appeared unimpressed by JDA's assessment that the continuing Soviet threat justified additional monies to procure advanced weapons systems. Even more unfortunate from the defense agency's standpoint, the Finance Ministry enjoyed the support of Prime Minister Toshiki Kaifu on this issue. Although a participant in the NSC, Mr. Kaifu nevertheless felt that the thaw in East-West relations warranted a more restrained Japanese defense effort. Referring to JDA's proposed 6 percent spending hike for FY 1991, the first year of the new program, the prime minister charged that this was an "unacceptable" request in light of improved U.S.-Soviet relations and fiscal realities.

Perhaps influenced by the military-restructuring decisions of the United States and other allies, Mr. Kaifu advised JDA in late July 1990 to take into account "changes in the international situation" in drawing up the FY 1991-FY 1995 defense program. "[T]he perception of the international situation by the European countries has changed much," the prime minister was quoted as telling defense officials. "I hope future [Japanese defense] policy and [defense] white

papers will be based on this point." His approach clearly questioned the need for a large increase in Japan's defense budget when Western allies appeared to be cutting theirs.

Since defense spending never has been politically popular in Japan, Mr. Kaifu's alliance with tight-fisted MOF on this issue lowered the boom on JDA's hopes for realizing certain improvements in the weapons area. Budgeted at Y22.8 trillion ($168.9 billion at Y135=$1.00), the new five-year defense program, which was approved by the cabinet in December 1990 and went into effect April 1, 1991, generally will hold annual spending increases to a mere 3 percent before adjustment for inflation. This is well below the 5.4 percent average yearly hike JDA enjoyed under the FY 1986-FY 1990 plan. In an apparent effort to strike a compromise between JDA and proponents of a scaled-back defense program, the Japanese government also decided to subject the plan to a review after three years. This gives defense planners greater flexibility to augment or cut back military capabilities in response to changes in regional or global security environments.

Although the budget for new equipment will decrease by an estimated 2.3 percent a year on a contract basis through FY 1995 (see Table 1), JDA still was able to secure authorization for some of the advanced weapons systems recommended by the NSC. These include 36 vehicle-mounted multiple-launch rocket systems, four AWACS and two Aegis destroyers (see Table 2). As a result of these planned big-ticket purchases, the pace of tank and destroyer purchases will slow. JDA officials have emphasized, however, that actual combat capabilities in these areas will remain at about the same level because the advanced Type-90 tank and the Aegis destroyer will more than compensate for the retirement of their predecessors.

Table 1: Japan's FY 1991-FY 1995 Defense Program

| Category | Amount (trillions of yen) | Percentage Distribution | Annual Growth (in percent) |
|---|---|---|---|
| Total Spending | Y22.75 | 100.0% | 3.0% |
| Personnel Costs | 8.50 | 37.4 | 0.6 |
| Equipment Purchases | 5.10 | 22.4 | 2.1 |
| (purchases on contract basis) | (5.0) | --- | (-2.3) |
| Rear Support | 9.15 | 40.2 | 5.9 |

Source: Japan Defense Agency

Sacrificed from the "wish list" due to projected budget constraints were tanker-refueling aircraft and over-the-horizon radar. Domestic and regional concerns that this high-priced, sophisticated equipment would endow Japan with too great a power projection capability also evidently gave impetus to their deletion from the new plan.

Table 2: Planned Major Japanese Equipment Purchases, FY 1991-FY 1995

| Item | Quantity to be Procured |
|---|---|
| Ground Self-Defense Force | |
| Tanks | 132 |
| Artillery Pieces | 716 |
| Multiple-Launch Rocket Systems | 36 |
| Armored Personnel Carriers | 218 |
| Ground-Based Antiship Missiles | 40 |
| Antitank Helicopters (AH-1S) | 20 |
| Transport Helicopters (CH-47J) | 14 |
| Surface-to-Air Guided Missiles (improved HAWK) | 2.5* |
| Maritime Self-Defense Force | |
| Destroyers | 10 |
| Submarines | 5 |
| Auxiliary Ships | 20 |
| Antisubmarine Patrol Aircraft (P-3C) | 8 |
| Antisubmarine Helicopters (SH-60J) | 36 |
| Minesweeping Helicopters (MH-53E) | 1 |
| Air Self-Defense Force | |
| Fighter Aircraft (F-15) | 42 |
| Transport Aircraft (C-130H) | 3 |
| Transport Helicopters (CH-47J) | 2 |
| AWACS | 4 |
| Intermediate Training Aircraft (T-4) | 90 |
| Surface-to-Air Guided Missiles (Patriot) | 1* |

*Missile groups

Source: Japan Defense Agency

Responding to U.S. requests that Tokyo underwrite a greater share of the mutual defense burden, Japanese defense planners also reordered the budget for the FY 1991-FY 1995 period to enable Tokyo to cover approximately 50 percent of the roughly $6 billion annual cost of maintaining American forces in Japan; this represents a 10 percentage point increase (see JEI Report No. 48B, December 21, 1990). The Y8.5 trillion ($63 billion) earmarked for personnel-related expenses in the current defense plan will go toward upgrading living and working quarters for SDF members, primarily as a way to improve recruitment. Personnel is the one area of the 1976 outline in which Japan still falls short (see JEI Report No. 35A, September 14, 1990).

Illustrating the extent to which progress in U.S.-Soviet affairs affected the cabinet's assessment of Japan's near-term security needs, senior government officials decided to cap the increase in JDA's budget for FY 1991 at the lowest year-to-year level in 30 years. When then JDA director general Yozo Ishihara initially conferred with Finance Minister Ryutaro Hashimoto in July 1990 about defense funding for the first year of the new five-year plan, he requested a 6.3 percent increase. By the time the cabinet approved in late December the Y4.4 trillion ($32.5 billion) defense budget for the current fiscal year, this level had been reduced to 5.5 percent.

While this amount exceeded the 3 percent average annual increase envisioned in the new defense plan (and enabled JDA to shoulder higher personnel-related costs and make payments on earlier hardware contracts), the restraint on spending increases has forced JDA to delay until at least FY 1992 procurement of some advanced, big-ticket hardware, such as AWACS and the multiple-launch rocket system. JDA officials, who evidently anticipated a tough fight with MOF, warned their Pentagon counterparts as early as August 1990 that it would be difficult in the immediate future for the agency to acquire some advanced weapons systems that defense officials in both countries consider necessary.

JDA Proposes Staying the Course in FY 1992

JDA, in effect, set the stage this year for discussion of its budget proposal for the April 1992-March 1993 period with the release of its annual white paper in July. The 1991 white paper deleted a decade-old reference to the "latent Soviet threat" to regional security but urged continued vigilance -- and a continuation of current military spending levels -- because of Moscow's still formidable forces arrayed in the Asian Pacific.

The white paper acknowledged that the Soviet Union now is in a difficult position to stage aggressive actions against other countries because of its domestic economic and political problems as well as the loss of a support network when its former satellites in Eastern Europe embraced political and economic reforms outside of Moscow's sphere. Nevertheless, during the past two years, JDA maintained, Soviet forces in the Far East have been steadily "reorganized, streamlined and modernized." Such "massive deployment" in the Asian Pacific far exceeds what the Soviets need for self-defense, the white paper stated. The defense document therefore warned that Soviet forces will continue to bring tension to areas surrounding Japan. JDA also gave greater emphasis to the potential for regional instability -- with, or without, provocation from Moscow, citing the Cambodian civil war and the perception of a militaristic venue being pursued by North Korea. In short, the defense agency's bottom line on the Asian Pacific security situation remained unchanged; the Cold War has not thawed in this region as much as it has in Europe, so Japan should not let down its guard (see JEI Report No. 31B, August 16, 1991).

JDA's draft budget request for FY 1992, not surprisingly, reflects the view that Tokyo should stay the course in terms of implementing the FY 1991-FY 1995 defense program. Its Y4.6 trillion ($34.2 billion) proposal, submitted to MOF in late August, represents a 5.4 percent increase over the initial budget for the current fiscal year. As drafted, the proposal for the second year in a row gives greater priority to troop support and less to equipment procurement. The Y1 trillion ($7.5 billion) penciled in for hardware purchases would represent a 4.8 percent decrease from FY 1991; the nearly Y1.8 trillion ($13 billion) requested for personnel and operations would represent an 11.7 percent increase.

In addition to JDA's continuing desire to improve living and working conditions for Japanese military personnel, this proposed breakdown may have been influenced by U.S. pressures on Tokyo to assume more of the costs for maintaining U.S. forces stationed in Japan -- what is referred to as host-nation support. For the past several years American legislators, in particular, have argued that Japan should be sharing more of the mutual defense burden,

given its economic strength. They have zeroed in on host-nation support, with some members of Congress arguing that Tokyo should bear 100 percent of the direct costs of maintaining U.S. troops on Japanese soil. While the Japanese government has countered that these demands exceed what it legally may do under the 1960 Status of Forces Agreement (see JEI Report No. 38A, October 6, 1989), defense officials have promised in talks with their American counterparts to push for increased support for U.S. forces within the legal limits.

Despite the reduction in monies for equipment purchases, JDA proposed following through in the coming fiscal year on the acquisition of some big-ticket items that the agency had to forgo in FY 1991. The Y1.6 trillion ($12.2 billion) suggested for the Ground Self-Defense Force would enable JDA to purchase from defense contractor LTV Corp. nine multiple-launch rocket systems for Y24.1 billion ($178.5 million) and 28 Type-90 tanks, made by Mitsubishi Heavy Industries, Ltd., at a cost of Y30.6 billion ($226.7 million). JDA would like to procure for the Maritime Self-Defense Force two 4,400-ton-class destroyers for Y147.8 billion ($1.1 billion) and two P-3C antisubmarine warfare helicopters, produced under license from Lockheed Corp. by Kawasaki Heavy Industries, Ltd., at an estimated cost of Y23.4 billion ($173.3 million). As for the Air Self-Defense Force, the defense agency has requested funding for three Raytheon Co. Patriot surface-to-air missile batteries for Y103.8 billion ($768.9 million) and 11 General Dynamics Corp. F-15 fighter aircraft, which are licensed for production by MHI, for Y113.7 billion ($842.2 million).

The requested procurement of the Patriot missiles and the Type-90 tanks was carried over from the current fiscal year. The purchase of these weapons was delayed because the initial allocation for FY 1991 defense spending had to be reduced by Y100 billion ($740.7 million) to free up funds for the $9 billion pledged by Tokyo in January to assist the multilateral forces that fought in the Persian Gulf War (see JEI Report No. 7B, February 22, 1991).

Other major weapons acquisitions proposed for purchase in FY 1992 include: eight Type-88 surface-to-surface missiles; 20 batteries of Type-91 shoulder-firing surface-to-air missiles; five CH-47J helicopters made by Boeing Co.; 15 OH-6D helicopters, produced under license from Hughes Aircraft Co. by KHI; 10 AH-1S antitank helicopters, produced under license from Bell Helicopter Textron Inc. by Fuji Heavy Industries, Ltd.; 17 HU-1H helicopters produced under license from Bell by FHI; a 4,000-ton training vessel; and 25 T-4 fighter aircraft trainers made by KHI.

Joint Development Prospects Fuzzy

The defense agency also is seeking Y192.9 billion ($1.4 billion) for research and development in FY 1992 in line with its plan to double by the end of the current defense plan the 2.5 percent share of the budget now devoted to R&D. Representing a significant break from past practice, however, JDA director general Yukihiko Ikeda, in outlining the guidelines for the FY 1992 budget to aides and defense-related officials of the ruling Liberal Democratic Party, emphasized the importance of promoting cooperation with the United States in military-related R&D.

People who say that Japan and the United States are unwilling or unable to collaborate in studying advanced technologies are overstating the situation; the work of the 13-year-old bilateral Systems and Technology Forum indicates

otherwise. At a late September S&TF meeting in Tokyo, for example, the two governments agreed to jointly research and develop a solid fuel-burning ducted rocket engine. This project actually is an outgrowth of the group's decision last year to establish joint working groups in five areas of advanced defense technology. By enabling American and Japanese representatives to identify mutually beneficial cooperative projects, the working group approach would enable both nations ultimately to lower the costs of defense systems and maximize technological resources, participants maintained.

Notwithstanding the efforts of S&TF and Mr. Ikeda's intention to foster greater transpacific cooperation, misgivings on the part of government and industry in both countries have limited joint R&D work on defense technologies. This situation is unlikely to change in the short run, given the bitter 1987-89 controversy surrounding the FSX, Japan's next-generation fighter support aircraft (see JEI Report No. 21A, May 26, 1989).

The FSX project is at least two years behind schedule. Disagreements between Washington and Tokyo delayed its start, but a bigger factor was the long time it took for General Dynamics, the builder of the F-16 on which the FSX is modeled, and prime contractor MHI to work out a project agreement. Washington's strict limits on the transfer of F-16 technology to Japan also has slowed progress because MHI has to design and develop on its own key parts of the FSX's airframe and electronics systems. This work is a major reason projected development costs have nearly doubled from an original estimate of Y165 billion ($1.2 billion) to Y310 billion ($2.3 billion).

To help defray rising program costs JDA incorporated an additional Y83 billion ($614.8 million) in its FY 1992 budget request for the FSX. The defense agency also is being forced to make some additional equipment purchases and modifications to compensate for the problems with the FSX timetable. Next year's request for 11 more F-15s is a contingency measure. The Air Self-Defense Force also has decided to modernize its three squadrons of MHI-built F-1 aircraft because of the delays in FSX development. Over the next two years the aircraft will be retrofitted with advanced antiship missiles and improved fire-control systems, among other features.

Although behind schedule, FSX work basically is on track. In July MHI signed its first major contract with General Dynamics, the prime subcontractor, covering $110.7 million of the estimated $800 million in development work that the U.S. defense contractor expects from this phase of the FSX program. Of the 300 engineers working on the project at MHI's Nagoya plant, approximately 60 are American, according to General Dynamics officials.

Despite these signs of progress, some analysts fear that the acrimony generated by the FSX deal has soured prospects for future joint development work. "FSX hangover," as it sometimes is called, also could bolster the case of U.S. policymakers and others who contend that Japan, for reasons related primarily to its trade imbalance with the United States, should buy new weapons systems from American defense contractors rather than develop the hardware by itself or manufacture it under license.

Japanese defense officials got a fresh reminder of this point of view earlier this year. JDA wanted to buy nine of the 36 multiple-launch rocket systems planned for acquisition over the course of the FY 1991-FY 1995 plan

off-the-shelf and have a Japanese company (Nissan Motor Co., Ltd.) produce the remaining 27 units under license from LTV. The Dallas-based company evidently insisted that this relatively small order did not warrant a licensing arrangement; a contract for around 150 units might, however. Given the fluid international environment and the Japanese government's plan to reassess the current defense plan after three years, JDA would not commit to more than 36 MLRS units through FY 1995. The defense agency eventually agreed to purchase all 36 units off-the-shelf, leaving open the possibility that the system may be licensed for domestic production during the FY 1996-FY 2000 program.

While this move avoided another bilateral flap, JDA's decision to seek Y3 billion ($22.2 million) in FY 1992 for basic design work on the GSDF's next-generation light observation helicopter -- dubbed OHX -- has sparked an outcry from some U.S. quarters reminiscent of the FSX controversy. The OHX would replace approximately 180 aging OH-6Ds made by KHI under license from McDonnell Douglas Helicopter Co. The next-generation helicopter will be equipped with what has been described as an integrated, infrared-television-laser reconnaissance and observation system. Basic design and development costs are expected to run anywhere from Y60 to Y80 billion ($444.4 to $592.6 million). A GSDF source has been quoted as saying that JDA would like work to start on the prototype in FY 1993 so procurement could begin from FY 1997 and possible deployment start in FY 1999.

At least one U.S. firm, Sikorsky Aircraft Co., lobbied JDA to be included in the OHX project. According to Stanley P. Krueger, president of international operations in Japan for Sikorsky's parent firm, United Technologies Corp., the subsidiary was a logical and attractive candidate for joint development and production. Earlier this year the Stratford, Connecticut-based company was tapped by the U.S. Army along with Boeing to develop the Comanche, the army's new light attack helicopter. "It's not difficult to suggest that the technology developed for the [Comanche] might be applied to the OHX," Mr. Krueger reportedly stated.[1]

The U.S. Army tried to work the other side of the coin, coopting Japanese manufacturers to work with Sikorsky and Boeing on the Comanche. Codevelopment and coproduction of the Comanche would afford Japan and other allies a cost-effective opportunity to take advantage of technical advancements, army officials maintained. According to the army's former manager of the Comanche project, retired Maj. Gen. Ronald Andreson, the army wants to purchase more than 1,292 light attack helicopters in the late 1990s and beyond for around $35 billion. If the Sikorsky-Boeing team turns out 120 helicopters a year, the cost of each Comanche is expected to be $7.5 million, a value not possible in any other country since no one else plans to buy that many helicopters at that rate, Mr. Andreson contends.[2]

At this stage in the budget compilation process, however, JDA remains committed to indigenous development. Sikorsky's conversations with all the appropriate Japanese government and industry officials appear to have been in

[1]Nobuyuki Oishi, "U.S. Contractors Hit By FSX Fallout," Nikkei Weekly, September 21, 1991.

[2]Caleb Baker, "U.S. Army Eyes Japanese Help On Comanche Production," Defense News, July 29, 1991, p. 3.

vain, as does the army's attempt to interest the Japanese in the Comanche project. Some Japanese defense officials justify JDA's approach on the grounds that the Comanche is designed as an offensive weapon, which would not appropriately serve -- or legally serve, some might argue -- Japan's purely self-defense mission. Thus, "if the U.S. has no substitutes, we must develop the helicopter by ourselves," says Ryozo Tsutsui, a former defense official.[3] Comments such as Mr. Tsutsui's have revived FSX-type arguments in the United States to the effect that Japan would prefer to selfishly guard its technological advances even though American defense contractors, through licensed production arrangements, have been willing to transfer the fruits of their labors.

AWACS Flap Highlights Defense/Economics Linkage

While Tokyo's handling of the MLRS and OHX/Comanche issues generally has not played well in the American defense community, JDA's decision to eliminate funding from its FY 1992 budget request for the two AWACS it had planned to procure (two more would be purchased in FY 1993) risks becoming a full-blown bilateral dispute. The reason for the brouhaha has as much to do with perceptions of Japan's self-defense needs as it does with the bilateral trade imbalance. The apparent controversy-in-the-making illustrates the extent to which the defense and economic aspects of U.S.-Japan relations have become linked.

From a purely business perspective the defense agency's reasons for not going ahead with the AWACs purchase are understandable. Boeing, which makes the sophisticated surveillance aircraft, more than doubled the plane's price after JDA incorporated the AWACS acquisition into its FY 1991-FY 1995 plan. The aerospace giant reportedly has quoted a new per-plane price of Y70 to Y80 billion ($518.5 to $592.6 million), compared with the Y30 billion ($222.2 million) figure JDA had used last year in pulling together the current five-year defense plan. The price soared after Congress scrapped a plan to sell 11 of the Boeing 707-based planes to Saudi Arabia and the Seattle-based company announced plans to shut down its AWACs assembly line. The price quotes that Boeing presented to JDA last year were based on a production run of at least 14 planes. Reopening the line for just four planes would jack up the price considerably.

Some Japanese defense officials believe that before the cabinet's year-end approval of the FY 1992 budget the AWACS or another type of surveillance aircraft once again may show up in the defense plan. For example, there are reports that JDA may be considering an upgraded E-2C, a small, propeller-driven early warning aircraft, as an alternative to the AWACS.[4] But defense experts in both countries caution against exploring alternatives because oftentimes the resulting purchase is not exactly what was wanted or really needed. No other model quite matches the Boeing-made aircraft's capabilities, they maintain.

As with the FSX deal, congressional pressure may force both parties to reach some sort of agreement. Some 64 members of the House of Representatives wasted little time in firing off a letter to Prime Minister Kaifu in late September, charging that Tokyo is reneging on former Prime Minister Suzuki's

[3]Oishi, op. cit.

[4]Naoaki Usui, "Japan Cuts AWACS, Funds New Copter In '92 Budget Plan," Defense News, August 26, 1991, p. 1.

promise in 1981 to purchase AWACS as part of Japan's 1,000-nautical-mile self-defense effort. Tokyo should not go back on its word even though the global security environment is changing, they asserted. While acknowledging that the cost of the aircraft has risen dramatically, the members argued that JDA's decision to eliminate the AWACs from its FY 1992 procurement plans "would be inconsistent with U.S.-Japanese traditions of mutual cooperation." U.S. government sources suggest that at this stage both sides are considering the feasibility of extending AWACS procurement into the next five-year plan to accommodate Tokyo's possible budgetary adjustments.

As happened when Congress considered the FSX deal, Japan's hefty trade surplus with the United States -- $38 billion in 1990 -- continues to affect how some legislators view Japan's responsibilities as an ally, responsibilities which some view as ameliorating the trade imbalance as well as supporting U.S. defense contractors scrambling for a piece of a shrinking global business. As long as economic competition between the two countries remains intense, certain members of the American defense community, supported by some U.S. legislators, will fight Japanese defense industry efforts to develop indigenous military technologies and equipment.

The pressure, however, has begun to backfire in Japan. "The U.S. doesn't play fair," an unnamed industry executive involved in the FSX project recently was quoted as saying. "I never want to do a development project with the Americans again," he reportedly said.[5] While this person does not speak for the whole industry, his statement suggests that congressional initiatives, such as the recent letter to Mr. Kaifu on the AWACS purchase, actually may give further impetus to Japanese efforts to go it alone. In coming years, no doubt, the link between bilateral trade and U.S.-Japan defense cooperation will become more prominent.

Global, Regional Changes Affect Japan's Defense Responsibilities

At about the same time that the defense agency released its FY 1992 draft budget, Soviet communist hard-liners attempted to stage a coup d'etat. The chain of events precipitated by their failure to overthrow the government of President Gorbachev has altered still further the global order in which Japan's security needs and defense roles and missions have been determined for the past 46 years. As a result, Japan's political opposition and perhaps certain elements within the ruling LDP may press for a further scaling back of Japanese defense spending in the later years of the current five-year plan. Depending on JDA's assessment next year of the regional security situation, there also might be moves to eliminate proposed acquisitions of certain expensive, technologically advanced hardware.

Near-Term Impact of Soviet Developments - Most Japanese defense analysts concur that the Japanese government generally will stick with the FY 1992 spending plan proposed by JDA. While the Ministry of Finance rarely grants government ministries and agencies exactly what they ask for in August, MOF's inevitable trimming of JDA's FY 1992 budget request should not be so severe as to undermine equipment procurement and personnel needs for the next fiscal year.

[5]Oishi, op. cit.

As one Japanese defense official pointed out, "No matter what is happening elsewhere in the world, Japan must maintain the defense capabilities necessary to enable it to effectively repel small-scale aggression -- this is a basic tenet of the self-defense mission." A dramatic departure from the current defense plan could undermine this capability, he explained.[6]

Moreover, some Japanese feel that there still are too many uncertainties in the Soviet Union. Cognizant of the modernized Soviet troops and equipment in the Far East, Japanese defense officials view with some skepticism the assertion that conservative Soviet elements have been rendered ineffective by the dramatic course of events following the late August coup attempt. They urge continued qualitative improvements in Japan's military capabilities and close cooperation with the United States.

Of perhaps even greater concern to Japanese public- and private-sector officials are the regional repercussions of the demise of the Cold War order. While Tokyo has reacted in a measured manner to the Philippines Senate's rejection of an agreement allowing the U.S. military to stay at the Subic Bay Naval Station (see JEI Report No. 36B, September 27, 1991), some Japanese analysts are apprehensive that potentially volatile developments in the Philippines could spill over into the rest of the Asian Pacific once the stabilizing influence of an American troop presence is withdrawn.

Jin Murai, an LDP member of the Diet's lower house, believes that the East-West superpower conflict contained many ethnic and economic problems. The breakdown of Soviet central government control, in effect, has opened a "Pandora's box," creating highly uncertain dynamics in the neighboring region, Mr. Murai maintains. "What will happen in China when Deng [Xiao Ping] dies? How about Kim Il Sung in North Korea? With the end of the Cold War we will see the commencement of 'hot wars' in Asia and elsewhere," he contends.[7] Mr. Murai's remarks suggest that the continued improvement of Japan's defense capabilities remains just as important, if not more so, as the global system undergoes transition.

Even before the attempted Soviet coup Tokyo was concerned about potential regional instability. In July Foreign Minister Taro Nakayama proposed the establishment of regular, high-level meetings among senior government officials from Asian Pacific countries to discuss security policy, with the goal of facilitating an exchange of security-related information and ideas. Mr. Nakayama unveiled this proposal at a ministerial meeting of the six-country Association of Southeast Asian Nations (see JEI Report No. 29B, August 2, 1991).

Japanese government officials have emphasized that what the foreign minister is proposing is by no means an Asian equivalent to the North Atlantic Treaty Organization or the Conference on Security and Cooperation in Europe. Rather, Tokyo is highly concerned about the power vacuum that it believes will develop in the Asian Pacific with the restructuring of U.S. forces and the presumed reduction of the Soviet military presence. As Mr. Murai mentions, Japanese officials are worried particularly about the behavior of China and North

[6]Interview with Shinshiro Yamazaki, Defense Facilities Administration Agency, Japan Defense Agency, September 4, 1991, Tokyo, Japan.

[7]Interview with Jin Murai, Japanese Diet, House of Representatives, September 10, 1991, Tokyo, Japan.

Korea, two countries that were conspicuously quiet during the recent upheaval in the Soviet Union.

For this reason Japanese officials have been reluctant to speculate about the impact on the global security environment -- and Japan's related defense role -- of President Bush's late September plan to eliminate almost all U.S. tactical nuclear weapons and a similar proposal subsequently unveiled by President Gorbachev. Although Mr. Kaifu praised the American president for his "bold and courageous initiative," there is a view in Tokyo that the true regional impact of the dramatic American and Soviet announcements cannot be known with any degree of certainty until Asian countries with nuclear capabilities -- that is, China and, presumably, North Korea -- respond in kind. The U.S. proposal, in particular, makes it more difficult for Pyongyang, a 1985 signatory to the Nuclear Nonproliferation Treaty, to continue to refuse inspection of its nuclear facilities by the International Atomic Energy Agency. North Korea's pretext for not agreeing to on-site inspections has been the suspected presence of U.S.-built short-range nuclear weapons in South Korea. In the near future this no longer would be a factor. Nevertheless, Japanese government officials suggest that the unpredictable and potentially problematic situation on the Korean Peninsula compels Tokyo to hold firm to its defense plans.

The Japanese press also has suggested that President Bush's proposal could pave the way for a new bilateral defense arrangement. This is unlikely, government officials on both sides of the Pacific maintain. For one thing, President Bush contacted the leaders of Japan, Australia, South Korea and other Asian Pacific nations soon after he announced his plan to assure them that Washington's commitment to these nations' security and well-being remained "rock solid." Second, the U.S.-Japan Mutual Security Treaty, in particular, is viewed by virtually all the regional players as an arrangement that benefits everyone. Its deterrent nature has served to discourage military adventurism by Moscow, Beijing, Pyongyang and others. Moreover, for countries that suffered under Japanese colonial rule prior to 1945, the MST framework is viewed as restraining Japanese militaristic behavior. "Japan is one of Korea's major concerns, especially Japan's defense role," says Cha Young Koo of the Korea Institute for Defense Analysis. "The [MST's] function of restraining Japan's military . . . is becoming more and more important," he contends.[8]

Global Developments Require Redefining Defense Role - As the post-Cold War order continues to evolve in the coming months and years, discussions in Tokyo will focus not only on defense spending levels and equipment needs but the nature of Japan's self-defense mission. With the country's emergence as a major economic power, Tokyo's friends increasingly have criticized Japan's apparent unwillingness to assume greater political responsibilities outside its immediate sphere. When Iraq invaded Kuwait in August 1990 and Washington called for contributions to the allied military effort to redress this aggressive action, Japan's offerings of financial assistance were called too-little, too-late and provoked charges from some American policymakers that Tokyo wanted only to "hide behind its peace constitution." (Article 9 of Japan's 1945 constitution is a war-renouncing clause that has been interpreted as banning the overseas dispatch of military personnel -- see JEI Report No. 13A, April 5, 1991.)

[8]George Leopold, "Cold War Leaves Legacy of Instability in Asia," Defense News, September 30, 1991, p. 6.

The Persian Gulf War, perhaps even more than the easing of East-West tensions, has compelled Tokyo to deliberate how its self-defense laws and constitutional provisions should be reinterpreted in light of dramatic global changes and Japan's stature within the emerging new world order. This process has not been easy; for 46 years Japan's foreign policy has been limited to non-military involvement outside its home waters. Not surprisingly, Tokyo's initial effort to develop a means by which Japan could provide unarmed support to allies engaged in a foreign conflict situation failed -- due, in part, to a consensus gap between what the government wanted to do and what the public and Southeast Asian neighbors were willing to support (see JEI Report No. 44B, November 16, 1990).

The victory of the coalition forces in the Persian Gulf War as well as the winding down of the Cold War have brought about a shift in domestic and regional opinion concerning what Japan can and should do abroad to support its allies. Due largely to this change in public mood, Tokyo decided in April to send MSDF minesweepers to the Persian Gulf to assist postwar cleanup of the mine-ridden area (see JEI Report No. 17B, May 3, 1991). The positive response this action received from the United States and other allies as well as from the Japanese public no doubt encouraged the administration of Prime Minister Kaifu in mid-September to put forward a revamped version of last year's failed legislation to allow Japanese personnel to participate in United Nations-backed peacekeeping operations. If enacted, the bill would authorize the dispatch overseas of as many as 2,000 lightly armed SDF members -- the first such dispatch in Japan's postwar history (see JEI Report No. 36B, September 27, 1991). Since the LDP-led government worked closely with the two centrist opposition parties, Komeito and the Democratic Socialist Party, in developing the new proposal, the peacekeeping-operations bill stands an excellent chance of passing the Diet, probably early next year.

Because this kind of action is unprecedented in Japan's postwar history, the bill's drafters had to include several provisions to ensure that SDF members would not find themselves embroiled in a conflict situation. Specifically, parties involved in U.N.-mediated disputes first must agree to a cease-fire and accept deployment of peacekeeping forces. All peacekeeping forces also must remain neutral. Perhaps the most important stipulation is that participating Japanese forces would be withdrawn if any of these conditions are not met.

Critics might argue that these stipulations, in effect, defang the proposal and are further evidence of Japan's unwillingness to put itself at risk with the rest of its allies. Yet, Tokyo insists that these provisions are necessary to dispel possible residual concerns in Japan and in the Asian Pacific about the use overseas of the Japanese military. What should not be overlooked is the dramatic turnaround in public opinion in a country where decisionmaking typically proceeds at a snail's pace. Perhaps this reflects the Japanese people's recognition that a more engaged foreign policy now is in order.

## Conclusion

The demise of the Cold War order has presented Japan with an opportunity to reevaluate the nature and the extent of its self-defense mission. This reassessment will be conducted in a gradual manner since the global context continues to change. As a result, the current five-year defense program will not be altered dramatically through FY 1993; slight adjustments may be made, depending

on international and regional developments, during the following two years. These modifications may alter previous plans to purchase sophisticated weapons systems from the United States; that, in turn, could become a bilateral irritant.

If the U.N.-peacekeeping bill passes, it could open the door to greater foreign policy activism on Tokyo's part. The initial focus may be the Asian Pacific region, where the Japanese government has indicated it is interested in facilitating a peaceful resolution of the conflict in Cambodia. Moves to develop Japan's defense industry will be weighed against the external concerns of Japan's allies and the internal concerns of a people that for the past 46 years have embraced a pacificist philosophy on foreign policy.

For further information, contact Barbara Wanner.

* * * * * *

The views expressed in this report are those of the author and not necessarily represent those of the Japan Economic Institute.

# NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

1-4, 8-11